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FM AMEMBASSY RIYADH
TO RUEHC/SECSTATE WASHDC PRIORITY 0773
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEKDIA/DIA WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 000653

SIPDIS

DEPT FOR NEA/ARP, INR/NESA, INR/EC, EEB/IFD/OMA

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TAGS: [ECON](#) [EINV](#) [PREL](#) [ETRD](#) [GCC](#) [SA](#)

SUBJECT: SAG FLEXES MUSCLES TO ENSURE GCC CENTRAL BANK IN RIYADH

Classified By: Acting DCM Sandra Muench for reasons 1.4 (b) and (d)

11. (U) Key points:

-- (U) The GCC announced on May 5 that the GCC monetary council, a precursor to a GCC central bank, would be located in Riyadh and would start operating by the end of 2009.

-- (SBU) Embassy contacts disagree as to the reason for locating the council in Riyadh as opposed to the UAE, with some citing Saudi egos and others identifying Saudi Arabia's recent economic performance relative to its neighbors.

-- (C) A senior GCC Secretariat official responsible for external economic relations believes a currency could be in circulation by the end of 2012.

12. (SBU) Comment: Although the establishment of the monetary council is a clear indication the GCC members are still politically committed to a common currency, there are still significant obstacles to overcome. Among these are decisions on whether the GCC central bank or the members' central banks will have control of foreign reserves, what the common currency's relationship with the U.S. dollar will be (four of five initial members of the future monetary union currently have their currencies pegged to the dollar), and what will the timetable be for adoption of the common currency. Given the decisions that remain to be worked out, it is unlikely a currency will be in place before the end of 2012. End comment.

13. (U) Leaders of the Gulf Cooperation Council (GCC) met in Riyadh on May 5 and selected Riyadh as the location of the GCC monetary council, a precursor to the group's central bank. Various Emirati media publications reported that the UAE had "voiced reservations" over the decision to locate the Council in Riyadh, asserting that the lack of GCC institutions in the UAE and the UAE's early offer to host the bank gave them the "right" to have the bank in their country.

14. (C) In a May 6 conversation with EconCouns, Saudi British Bank's chief economist, Dr. John Sfakianakis, said the decision to locate the monetary council in Saudi Arabia had been reached six weeks ago and that the meeting held the day before was just the public unveiling of this decision. He also relayed that many had argued in favor of having the institution located in the UAE but placing a prominent Saudi in charge (such as recently retired central bank governor Hamid Al-Sayari), but that "egos interfered" (presumably Saudi egos). Sfakianakis said he sees monetary integration proceeding slowly, with the countries in the region taking the intermediate step of transitioning from a dollar peg to a currency basket before adopting a common currency.

15. (C) EconOff met with Dr. Abdulaziz Al-Uwaisheg, Director General of External Economic Relations at the GCC Secretariat, on May 10 to discuss the future GCC central bank. Uwaisheg clarified that the role of the monetary council will be to lay the groundwork for the future central bank, and will coordinate monetary policy between the GCC members, but will not have the authority to set policy itself. He expects the council to finish its work within 2 - 3 years and then evolve into the bank. When asked why the GCC leaders decided to locate the council in Riyadh, Uwaisheg said it was a combination of the size of Saudi Arabia's economy relative to the other GCC members (in 2007 Saudi Arabia accounted for 47 percent of the GCC's combined GDP) and Riyadh's reputation as "conservative and boring" when it comes to money management. He said that Riyadh's lobbying efforts were augmented by the perception that Saudi Arabia is doing a better job weathering the current economic crisis than some of its neighbors.

16. (C) Uwaisheg also discussed the GCC's movement towards a common currency, saying that though the current agreement requires the currency to be in place by the end of 2010, the monetary council is likely to ask the GCC leadership for an extension. He said he believes an accounting unit with irrevocably fixed exchange rates to the various GCC members' currencies could be in place by early 2011 with the currency entering into circulation by mid to late 2012 (originally the GCC intended to skip the accounting unit phase and jump straight to a circulating currency but has recently realized that is not feasible). According to Uwaisheg, the GCC has already met with a number of firms in Europe involved in the production of paper currency to discuss timetables.

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